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Markham, Charles Henry

The farmer and freight rates

[Chicago?]

[1923]

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The Farmer and Freight Rates

A Letter From the President of the Illinois Central System to the Publisher of the Omaha (Neb.) Bee

Editorial from the Omaha (Neb.) Bee,
June 20, 1923.

THE MORNING BEE

MORNING—EVENING—SUNDAY

THE BEE PUBLISHING CO., Publishers.

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NEBRASKA PAYS THE FREIGHT.

High railroad rates are more of concern to the middlewest than to any other part of the country. Landlocked 2,000 miles from the coast, it pays heavy toll to the transportation interests.

Farm products decrease in price from the Atlantic seaboard to Nebraska in almost direct proportion to the cost of shipping them. Our average price for grain, therefore, is ordinarily less than for any other state farther east. Corn, for example, sells for less in northeast Nebraska and the adjoining sections of Iowa and South Dakota than in any other part of the United States, because it is farther from market than any other region of surplus production.

The farmer pays the freight on everything he sells. That is to say, the cost of getting his produce to market is deducted from the price he receives. But when the farmer comes to buy manufactured goods he ships in from the east, he pays the freight on that, too. Every other middle western consumer pays more for the finished goods because of the high freight charges.

The thing works this way: The middlewest gets less for what it has to sell and pays more for what it has to buy because of the railroad charges. A reduction of freight costs would thus result in a double benefit to this section. The item of transportation costs is burdensome in the case of building material and coal as well as on agricultural products, for all bulky commodities are especially affected by the shipping rates.

There is nothing theoretical about this. Nor is the middle western movement for lower railroad tariffs simply due to the abberation of radical minds. Every one in the middlewest, in town or in country, would be directly benefited by a cut in railroad rates.

SAVING FOR THE PEOPLE.

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ILLINOIS CENTRAL RAILROAD COMPANY

OFFICE OF THE PRESIDENT

C. H. MARKHAM,
PRESIDENT

CHICAGO, June 28, 1923

Dear Mr. Updike:

An editorial in *The Omaha Morning Bee* of June 20 on "Nebraska Pays the Freight" discusses the business in which I am engaged. I have read the editorial with interest, disagreeing with the writer, however, and this letter is written to discuss with you the points brought out therein.

The editorial asserts that the Middle West "pays heavy toll to the transportation interests." The statement is open to possible misinterpretation. Who are "the transportation interests"?

Out of every dollar they took in last year, the railroads paid out 44.4 cents for labor. There are about 1,750,000 railway employes. They constitute a good-sized block of the consuming capacity of the country. Their wages are used—as is the farmer's income—to buy clothing, food, fuel, shelter, education, amusement. A large part of the railway payroll finds its way immediately into the channels of trade (all of it eventually does), and a good part of it goes to the farmers. After paying wages, the railroads had 55.6 cents of their 1922 dollar left. Of this, 35 cents was used for the purchase of fuel, materials and supplies, payment of loss and damage claims and insurance charges and for similar expenses. All of this 35 cents went immediately into the channels of trade. This left the railroads with 20.6 cents. Of this, 5.4 cents went to pay taxes and 1.5 cents went for rentals of equipment and joint facilities.

Out of the original dollar, the railroads had left, after paying these various charges, 13.7 cents, representing an annual return of 4.14 per cent on properties worth upward of 20 billions of dollars. Out of it had to be paid interest on indebtedness and kindred charges before the stockholders, the owners of the railroads, had anything left for themselves.

Since virtually all of the revenues received by the railroads go to pay the costs of the service performed, the "interests" that exact what the editorial calls a "heavy toll" upon the Middle West are American industries in general. They in turn furnish the farmers with a market for farm products.

Your editorial asserts that the farmer pays the freight both ways—on the products he ships and on the products he has shipped to him. I question that. To the extent that the farmer is a consumer, he does pay freight charges, just as he pays charges for all other services rendered in supplying his wants. The ultimate consumer of any article pays for the production and transportation of the raw materials that go into the article, the manufacture of the materials into a finished product and its distribution. That being true, it must follow that the farmer, as a producer, does not in reality pay the freight on what he ships.

The farmer receives for his products a stated market price which rests upon a great many factors, chiefly the operation of the law of supply and demand. The difference between the price at the market and what the farmer might receive for the product at his home station represents the cost of part of the transportation service to the consumer of the product. To say that the farmer pays it would be equivalent to saying that the farmer pays for the milling of his grain into flour, the baking of the flour into bread and the distribution of the bread to household consumers. These are services to the consumer, just as is the transportation of the wheat from the country elevator to the flour mill. What the farmer gets for his wheat is the price paid for bread less the cost of all services back along the line, including baking, milling, transportation and so on.

There is no tenable ground in logic for the statement that freight charges are a tax, or toll, upon anyone. It would be just as logical to say that the 2 cents paid for postage on a letter is a tax. It is payment for a service. Transportation is a service—an essential service.

It is asserted in the editorial that a reduction of freight rates would benefit the Middle West. That implies that a reduction could be effected without running the risk of impairing transportation service. Rate reductions made at the expense of the service performed are not economy, but cause losses to shippers far greater than the difference between adequate and inadequate rates.

Going back to 1913 as a normal pre-war year, we find that there has been an increase of 100 per cent in the railway payroll, of 150 per cent in railway taxes, of around 200 per cent in the cost of railway fuel and of similar large percentages in the prices of materials and supplies generally. Take equipment, for example. A Pacific type passenger locomotive cost about $23,500 in 1913; it costs $62,000

now. A Mikado freight engine cost $25,000 in 1913; now it costs $54,500. Chair cars that cost $13,500 in 1913 now cost around $31,000. The cost of other equipment has increased similarly, averaging around 150 per cent.

On the other hand, the service performed by railroads is one of the cheapest commodities on the market in comparison with pre-war prices, and it is a well-known fact that the cost of American railway service before the war was extraordinarily low. In 1913 the railroads received .719 cent for each ton of freight carried one mile; in the first three months of 1923 they received 1.104 cents, an increase of about 54 per cent. In 1913 the railroads received 2.002 cents for each passenger carried one mile; in the first three months of 1923 they received 3.104 cents, an increase of 55 per cent. According to Professor Irving Fisher, the economist, the weighted average of wholesale prices of 200 representative commodities for the first quarter of 1923 was 61 per cent above the average for 1913.

In thus presenting the case of the railroads, I am not unmindful of the agricultural situation. The re-establishment of farming operations upon a secure basis is a problem in which the country should be tremendously concerned. Agriculture is our greatest industry. It represents an investment of 78 billions of dollars, extends into every part of the country, and furnishes the raw materials for hundreds of allied trades and industries. We cannot have a prosperous country without prosperous farmers. That goes without saying.

Railroads furnish a service that is absolutely essential to farming, and it is to the interest of the farmers and the country at large that there be prosperous railroads, able to furnish an ample supply of that service at all times, and furnish it efficiently. Unless rates can be reduced without threatening the efficiency and adequacy of railway service, they should not be reduced.

The mistake in our past treatment of the railroads has been that we have looked at the so-called "railway problem" as the problem of obtaining lower rates. I think there is a good deal of misunderstanding attached to the phrase, "railway problem," but, if we do consider transportation as a problem, our first concern should be the assurance of adequate, efficient service. That kind of service is cheap at any price at all commensurate with its cost. Let us first assure good service, and after that cheaper service will follow.

Constant agitation for a reduction of freight rates does a great deal to unsettle the railway situation. I believe there is an opportunity for great constructive leadership offered to those who will take a stand for fair treatment of the railroads—a stand demanding that the railroads be allowed to charge rates sufficient to pay the costs of service and to yield a return upon the value of their properties sufficient to attract investors with new capital for improvements and extensions to the properties.

In all earnestness, I would like to see you take this stand in *The Omaha Bee*. I make this suggestion realizing the high standing your valued paper enjoys, its wide influence throughout the Middle West, and believing in your desire to make it a factor in constructive progress.

Yours very truly,

C. H. Markham

Mr. Nelson B. Updike,
Publisher, *The Omaha Bee*,
Omaha, Neb.

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